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Romania

Solid Wood Products

Annual

2003

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Report Highlights:
Romania's forest products industry continued it upward trend in 2002. Both the domestic furniture industry and construction sector expanded in tandem with the Romanian economy. Romania's government is currently focusing on implementing improved management practices for sustainable forests, in line with the EU requirements, and promoting higher value wood products abroad. Opportunities for U.S. exporters are limited, since trade agreements with the EU, CEFTA, and Israel are granted lower tariffs and tariff rate quotas for solid wood products.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Sofia [BU1], RO

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Production

Forest Situation/Outlook

Romania's forest land totals 6.35 million hectares (roughly 27 percent of Romania's land surface), of which, up to the end of the '90s, almost 95 percent were publicly owned and administered by the National Forest Administration (Romsilva). This total is more than 100,000 hectares more than the area existing ten years earlier, due to the efforts made by the local authorities to improve forest management and encourage reforestation. Previously much of the restituted forest was subjected to rapid rates of deforestation. Additionally, government-held forests were also suffered from significant illegal timber removals.

Forest restitution began in 1991 and involved two phases. After the first phase, 350,000 hectares were returned to small holders in plots averaging less than one hectare. The year 2002 brought wide debates related to the second stage of the restitution process, which requires reconstitution of holdings to a minimum 10 hectares. Claims have been made for approximately 3 million hectares, of which 1.3 million hectares were already returned to former owners or their heirs. It is estimated that, after the process is completed by 2005, 33 percent of forestland will be in private ownership.

The drawback of privatisation has been accelerated deforestation, increased environmental damage and other costs. Increases in cutting also contributed to depressed timber prices. The real issue for the authorities, however, is to provide sustainable management of forests, especially as Romania is to implement the EU-like practices and regulations. This is related to preventing wide-scale erosion and environmental degradation and to rural development.

The new private owners preferred to cut timber on their own property, rather than risk losing it all to an illegal cut. This situation resulted in a deforestation rate that was threatening to become uncontrollable. This concern resulted in National Forest Administration's decision to purchase the ownership rights of various holders who lacked the ability to properly manage their forest and thus prevent further forest degradation. The Authority set up buying prices of about US$10,500-$12,000 per hectare, depending on species, forest maturity, and other market criteria..

Domestic demand for forest products encompassing construction, furniture, and all other uses, is estimated at 18 to 20 million cubic meters per year. This exceeds legal wood removals in Romania, limited by National Forest Administration to 14-17 million cubic meters per year. The supply-demand imbalance constantly creates additional pressure from the industry to pursue export restrictions on log exports.

For 2003, the allowable cut was set at 16 million cubic meters, similar to the 2002 ceiling, though the amount actually harvested is usually lower, because of the poor infrastucture. Of this approved amount, 12.6 million cubic meters will come from publicly owned forests, 1.3 million cubic meters from private ones, 1.5 million cubic meters from forests owned by local communities. The harvest season is November – April.

Table 1 below presents the annual distribution of the total amount of wood harvested in Romania.

Table 1. Annual Distribution of Wood Harvested in Romania (million cubic meters)

	1991	2000	2001	2002	2003*
Total distribution, o/w	19.0	14.8	14.5	15.2	16
-industrial processing (timber and woodworking operations)	na	10.8	9.2	10.4	9.0
-Romsilva's own consumption	na	0.8	0.3	0.3	0.4
-supply for firewood and rural dwellings	3.0	3.2	2.0	2.5	2.2
-construction of forest roads	na	-	3.0	1.0	1.0
-other uses/losses	na	-	-	1	3.4

*Approved levels/Forecast
na - not available

In 1992 the annual forest cut dropped significantly to 15 million cubic meters, from 19 million a year earlier, after which this volume remained fairly steady.

Government measures to provide wood for fire and dwellings to rural populations was meant to reduce the illegal forest cut. The efforts appears to have had some initial success. The impact was that illegal timber removal was down 30 percent in 2002 compared to 2001 (from 139,733 cubic meters 98,000 cubic meters). Since 1999 the Romanian government has introduced an allocation for forest road construction, as an incentive for companies interested in taking over such projects.

Total standing forest area is approximately 1.35 billion cubic meters. About 60 percent of commercial forests are located in the mountains, 30 percent in the hilly regions, and the remaining 10 percent in the plains. Though coniferous species cover 31 percent of the forest area, while deciduous 69 percent, the former provides over 65 percent of the wood processed, with the balance of 35 percent harvested from deciduous forests.

By species, the structure of forest resources is given in Table 2 below:

Table 2. Forest Area by Species

	Coniferous	Beech	Oak	Fast-growing species (black poplar, etc.)
Average annual growth (cu.meters/ha)	3.5 – 4.5	3.6	2.9	20-30
Forest area by species, o/w (%):	Coniferous: 31		Deciduous: 69	
Beech	Spruce	Oak	Soft deciduous (alder, lime-tree, poplar, willow)	Hard deciduous (sycamore maple, ash-tree hornbeam, elm, etc)
20	25	19	14	6

Policy

The Romanian government will continue to hold a monopoly on the existing forest resources, even after privatization is completed. The scarce resources allocated for forest management and reforestation resulted in a decline of the growing stock over the last decade.

The 2002 budgetary outlays for forestry totaled $1.25 million, of which, up to the middle of the year, resulted in 11,766 hectares of established new forests. The reforestation rate is well below the annual levels in the '80s.

For 2003, the budgeted amount stands at $1.62 million, for a number of programs as follows:

- $500,000 for building forest roads;
- $485,000 for assistance programs aimed at privately-owned forest conservation;
- $137,000 for rehabilitation of the forests affected by natural disasters;
- $530,000 for research and development.

In addition, the Romanian government has attracted foreign funding for several projects. Among those, a reforestation program for desertic areas will help Romania to comply with the 1997 Kyoto Protocol recommendations. With this purpose, the World Bank will disburse $3.1 million over a three-year period (2002-2005), in which new forests are to be planted on more than 6,700 hectares of wasteland.

The Romanian government and the World Bank also signed a $25 million loan agreement for forest management and rehabilitation. Both central and local governments are to provide matching funds of about $9 million.

Trade

Excess demand for wood became chronic after trade liberalization in 1997, which led to a steep increase in log exports between 1998 and 2000. During this period Romania's exports of hardwood industrial round wood rose from zero to over 300,000 cubic meters. Nonetheless, price liberalization stabilized the domestic demand for logs at levels at world market price levels, which helped encourage greater efficeincy in the domestic saw mills.

As scarce raw material availability became increasingly an issue, however, in November 2001 the Romanian government decided to ban log exports for 6 months, under the pressure from the domestic industry. The immediate effect was that prices for hardwood logs in Romania fell dramatically, in particular for oak logs. Romanian oak sawing log prices, which ranged from $200 to $300/cubic meters before the ban, went down to only $80 - 100/cubic meters. This restriction was eliminated at the end of April 2002, but log exports continue to be carefully monitored: export licenses are required. Thus, after suffering severe shortages in 2000 and early 2001, Romanian hardwood saw mills now report the log stocks are adequate to meet demand.

Log exports typically represent around 0.5 percent in total export value and have concentrated in Transylvania, the main destination being Hungary, via joint Romanian-Hungarian companies. In 2001, exports to Hungary was made up 16 percent softwood logs, 12 percent oak logs, and 19 percent softwood lumber. There is informal evidence that in many instances Romanian exported logs and lumber are undervalued or of a higher quality than the one declared in the documents requested for export.

Market Segment Analysis

Timber Industry

Up to 1990 Romania's wood industry was entirely publicly owned and relatively consolidated. The state companies were integrated structures, from harvesting to final distribution. The sector underwent profound changes, after the revolution. Restructuring and privatization proceeded and then accerlerated with trade liberalization in 1997. In addition, nearly 7000 small and medium sized private firms were established for the production of saw lumber, construction materials, and furniture. Though many of the existing production units are relatively inefficient by international standards, using obsolete technologies, some investments have been made lately. Modern MDF, particleboard, laminated board and veneer plants have opened.

In 2002, Romania produced about 100 million cubic meters of timber, 29 million sq. meters of aesthetic veneer sheets, 70,000 cubic meters of plywood, 230,000 tons of fiberboard, and over 20,000 pieces of prefabricated wooden houses.

Furniture and Interiors Sector

Up to 1990 Romania used to be the main furniture supplier to the EU, with a share of 18.3 percent of total imports. Twelve years later this share went fell to 7 percent of the total furniture imports of the Member States, major exporters being China, Indonesia, the Czech Republic, and Poland.

In 2000, the furniture industry provided 1.7 percent of the total industrial output of Romania, about 6 percent of the total Romanian exports, and employed about 600,000 workers.

Modernization contributed to notable changes in the value of Romanian furniture output, which increased from $515 million 1998 to $630 million in 2001. An estimated 8 percent increase in 2002 is the signal that the industry is truly recovering, after bottoming out over the last decade, though, in physical terms, production still remains about half of the 1989 level.

Reasons for this severe drop have been contraction of the domestic market and the loss of traditional foreign market outlets in COMECON (especially in the former Soviet Union). More specifically, the 1989 total value of furniture sales in Romania was an estimated $725 million (all of it domestically produced). In recent years total domestic sales barely exceeded $100 million, of which a good share was imported. For the export market, Russia is applying increasingly protectionist policies to revamp its domestic production, and, at the same time, its demand for high value furniture products–Romania's specialty--remains low.

Construction Sector

Official sources estimate that production in the construction market in 2003 will be up 8-10 percent compared to the previous year, reaching $4 billion. The sector has had an upward trend for the past three years, from $3.3 billion in 2000, and $3.6 billion in 2001. The forecast is based on both the extensive programs for road building and rehabilitation initiated by the Ministry of Transportation and Public Works, but also on the initiatives of the authorities to re-launch construction of dwellings.

The housing market in Romania remains highly supply-constrained. The government dwelling agency will build 27,000 apartments in 2003, of which 16,000 will be finalized. Most of these units are provided, according to the current legislation, to young couples or low income families, in favorable terms (subsidized long term loans).

New housing prices range between $100-$1000 per square meter, especially depending on location and finishing materials. These prices went up recently, the government of Romania decided to reintroduce the 19 percent VAT from mid-2002. Many dwellings are built in rural areas, self-financed by the owner and often with primitive technologies.

Major commercial banks recently launched mortgage projects in Romania, which is hoped to provide some liquidity to the sector. Investment rate in real estate continues to be high.

Residential areas in suburbs of the major cities or in mountainous regions are rapidly expanding, as high income population segments move out of the multi-family residential blockhouses typically built during the communist regime.

PSD Temperate Hardwood Logs

PSD Table						
Country	Romania					
Commodity	Temperate Hardwood Logs				1000 CUBIC METERS	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2002		01/2003		01/2004
Production	2730	3500	2730	3400	0	3500
Imports	0	30	0	25	0	0
TOTAL SUPPLY	2730	3530	2730	3425	0	3500
Exports	0	280	0	250	0	260
Domestic Consumption	2730	3250	2730	3175	0	3240
TOTAL DISTRIBUTION	2730	3530	2730	3425	0	3500

PSD Softwood Logs

PSD Table						
Country	Romania					
Commodity	Softwood Logs				1000 CUBIC METERS	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Production	2210	2800	2215	2950	0	3000
Imports	0	0	5	5	0	0
TOTAL SUPPLY	2210	2800	2220	2955	0	3000
Exports	0	250	0	270	0	300
Domestic Consumption	2210	2550	2220	2685	0	2700
TOTAL DISTRIBUTION	2210	2800	2220	2955	0	3000

PSD Temperate Hardwood Lumber

PSD Table						
Country	Romania					
Commodity	Temperate Hardwood Lumber				1000 CUBIC METERS	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2002		01/2003		01/2004
Production	885	900	890	950	0	940
Imports	5	5	10	10	0	10
TOTAL SUPPLY	890	905	900	960	0	950
Exports	230	240	235	270	0	250
Domestic Consumption	660	665	665	690	0	700
TOTAL DISTRIBUTION	890	905	900	960	0	950

PSD Sofwood Lumber

PSD Table						
Country	Romania					
Commodity	Softwood Lumber				1000 CUBIC METERS	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2002		01/2003		01/2004
Production	1405	1600	1405	1640	0	1650
Imports	10	10	10	5	0	5
TOTAL SUPPLY	1415	1610	1415	1645	0	1655
Exports	480	510	490	490	0	500
Domestic Consumption	935	1100	925	1155	0	1155
TOTAL DISTRIBUTION	1415	1610	1415	1645	0	1655

Forest Product Strategic Indicator Tables

FOREST PRODUCT			
STRATEGIC INDICATOR TABLES FOR ROMANIA			
CONSTRUCTION MARKET			
Country:	Previous	Current	Following
Report Year: 2003	Calendar Year	Calendar Year	Calendar Year
Total Housing Starts (thousand units)	30	32	33
--of which, wood frame (thousand units)	3.0	4.0	4.0
--of which, steel, masonry, other materials (thousand units)	27	28	29
--of total starts, residential (thousand units)	5	5.2	6
----of residential, single family (thousand units)	4	4	4.5
----of residential, multi-family (thousand units)	1	1.2	1.5

--of total starts, commercial (thousand units)	2.0	2.3	2.4
Total Value of Commercial Construction Market ($US mil)	740	750	770
Total Value of Repair and Remodeling Market ($US million)	520	530	550
FURNITURE & INTERIORS MARKET			
Country:	Previous	Current	Following
Report Year:	Calendar Year	Calendar Year	Calendar Year
Total Housing Starts (number of units)	30,000	31,000	32,000
Total Number of Households)	7,395,000	7,393,000	7,394,000
Furniture Production ($US million)	690	750	780
Total Furniture Imports ($US million)	90	80	85
Total Furniture Exports ($US million)	600	640	620
Interiors Market Size ($US million)	50	50	55
MATERIAL HANDLING MARKET			
Country:	Previous	Current	Following
Report Year:	Calendar Year	Calendar Year	Calendar Year
Total Value of Industrial Output ($US million)	7	8	8
New Pallet Production (million units)	0.6	0.7	1

FOREST AREA			
Country:	Previous	Current	Following
Report Year:	Calendar Year	Calendar Year	Calendar Year
Total Land Area (million hectares)	23.75	23.75	23.75
Total Forest Area (million hectares)	6.34	6.35	6.36
--of which, Commercial ('000 hectares)	6,160	6,165	6,170
----of commercial, tropical hardwood ('000 hectares)	0	0	0
----of commercial, temperate hardwood ('000 hectares)	4,260	4,265	4,270
----of commercial, softwood ('000 hectares)	1,900	1,900	1,900
Forest Type			
--of which, virgin ('000 hectares)	410	410	410
--of which, plantation ('000 hectares)	5,105	5,110	5,120
--of which, other commercial (regrowth) ('000 hectares)	825	830	830

Total Volume of Standing Timber (thousand cubic meters)	1,350,000	1,368,400	1,386,375
--of which, Commercial Timber ('000 cum)	1,290,000	1,300,000	1,300,000
Annual Timber Removal ('000 cum) 1/	15,200	15,680	16,660
Annual Timber Growth Rate ('000 cum)	33,600	33,655	33,700
Annual Allowable Cut ('000 cum)	16,000	16,000	17,000
1/ If Removals exceeds growth rate, analyze impact in text.			
WOOD PRODUCTS SUBSIDIES			
Country:	Previous	Current	Following
Year of Report	Calendar Year	Calendar Year	Calendar Year
Total Solid Wood Export Subsidy Outlay ($US million)	0	0	0
Is there a ban on the export of logs, lumber, or veneer? 1/	No	No	No
Are there export taxes (yes/no)? 2/	0	0	0
Total Wood Production Subsidy ($US million)	0	0	0
Scope (thousands of hectares)	0	0	0
FOREST PRODUCT TARIFFS AND TAXES (percent)		Tariff	Tariff

Country:	Product	Current	Following
Report Year:	Description 1/	Year (%)	Year (%)
4401	Firewood	3	30
44012100	In small particles, coniferous	3	3
44012200	In small particles, other than coniferous	3	3
4403	Timber	3	3
4404	Lumber for barrels	10	10
4405	Woodwool, wood flour	10	10
4406	Flitch wood	10	10
4407	Wood sawn or chipped lengthwise	7	7
4408	Veneer sheets and other wood sawn lengthwise	10	10
4409	Wood continuously shaped	30	30
4410	Particle board	10	10
4411	Fiberboard of wood	10	10
4412	Plywood	8	8
4413	Densified wood in blocks	10	10
4414	Wooden frames	25	25
4415	Packing cases of wood	25	25
4416	Wood barrels	25	25
4417	Tools of wood	25	25
4418	Wood joinery	15	15
4419	Tableware and kitchenware	40	40

4420	Decorative panels and objects	25	25
4421	Other articles of wood	25	25
4422	N/A		
4423	N/A		
4424	N/A		
4425	NA		